

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF LOUISVILLE GAS	)	CASE NO.
AND ELECTRIC COMPANY FOR THE TWO-YEAR	)	2011-00232
BILLING PERIOD ENDING APRIL 30, 2011	)	

O R D E R

On April 6, 1995, the Commission approved Louisville Gas and Electric Company's ("LG&E") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> Pursuant to KRS 278.183(3), at six month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At two year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing

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<sup>1</sup> Case No. 1994-00332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products (Ky. PSC Apr. 6, 1995).

base rates of the utility. Therefore, the Commission hereby initiates the two-year review of the surcharge as billed from May 1, 2009 to April 30, 2011.<sup>2</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, LG&E is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review; and (b) on a proposal to roll-in its environmental surcharge into existing base rates. In addition, LG&E is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. Since the period under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, LG&E has sought and been granted five amendments to its original environmental compliance plan and surcharge mechanism. Pursuant to our Order approving the Stipulation and Recommendation in Case No. 2009-00549,<sup>3</sup> all costs associated with LG&E's 2001 and 2003 amended compliance plans were rolled-in to LG&E's base rates. As a result, the environmental surcharge provides recovery of the costs associated with the three remaining amended environmental compliance plans. When determining its over- or under-recovery of the surcharge in this proceeding, LG&E should reflect the impacts of these prior cases, as applicable.

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<sup>2</sup> Since LG&E's surcharge is billed on a two-month lag, the amounts billed are based on costs incurred from March 2009 through February 2011.

<sup>3</sup> Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates (Ky. PSC Jul. 30, 2010).

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. LG&E shall appear at the Commission's offices on the date set forth in Appendix A to submit itself to examination on the application of its environmental surcharge as billed to consumers from May 1, 2009 through April 30, 2011. At the public hearing there shall be no opening statements or summaries of testimony.

3. LG&E shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

4. Any party filing testimony shall file an original and ten copies.

5. a. The information requested herein is due on or before the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any requests to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

6. Within seven days of the Commission granting intervention to a party, LG&E shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for each review period.

7. LG&E's monthly environmental surcharge reports and supporting data for the review periods shall be incorporated by reference into the record of this case.

8. The case records of Case Nos. 1994-00332, 2000-00386, 2002-00147, 2002-00193, 2003-00433, 2004-00421, 2006-00208 and 2009-00198<sup>4</sup> shall be incorporated by reference into the record of this case.

9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

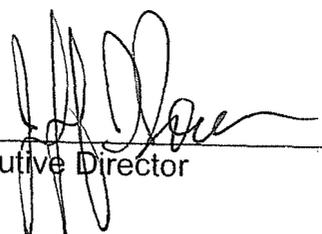
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<sup>4</sup> Case No. 1994-00332, Louisville Gas and Electric Company (Ky. PSC Apr. 6, 1995); Case No. 2000-00386, The Application of Louisville Gas and Electric Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC Aug. 30, 2001); Case No. 2002-00147, Application for an Amended Environmental Compliance Plan, and a Revised Surcharge to Cover the Costs (Ky. PSC Sept. 4, 2003); Case No. 2002-00193, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001 (Ky. PSC Oct. 22, 2002); Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company (Ky. PSC Mar. 31, 2006); Case No. 2004-00421, The Application of Louisville Gas and Electric Company for Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Jun. 20, 2005); Case No. 2006-00208, The Application of Louisville Gas and Electric Company for Approval of Its 2006 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Dec. 21, 2006); and Case No. 2009-00198, Application of Louisville Gas and Electric Company for a Certificate of Public Convenience and Necessity and Approval of Its 2009 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Dec. 23, 2009).

By the Commission

ENTERED   
AUG 09 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00232 DATED **AUG 09 2011**

LG&E shall file its prepared direct testimony and responses to the information requested in Appendix B no later than ..... 09/07/11

An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room No. 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues..... 09/28/11

All additional requests for information to LG&E shall be filed no later than ..... 10/12/11

LG&E shall file responses to additional requests for information no later than ..... 10/26/11

Intervenor testimony, if any, in verified prepared form shall be filed no later than..... 11/09/11

All requests for information to Intervenors shall be filed no later than ..... 11/23/11

Intervenors shall file responses to requests for information no later than ..... 12/07/11

Last day for LG&E to publish notice of hearing date..... To be scheduled

Public Hearing is to begin at 10:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of LG&E and Intervenors ..... To be scheduled

Briefs, if any, shall be filed by ..... To be scheduled

## APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00232 DATED **AUG 09 2011**

### COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO LOUISVILLE GAS AND ELECTRIC COMPANY

1. Concerning the rate of return on the five amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in LG&E's jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review.

2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings LG&E has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount LG&E believes needs to be recognized for the six-month review or the two-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported during each billing period under review for Pollution Control Deferred Income Taxes.

4. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the September 2010 through February 2011 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that LG&E believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into LG&E's base rates. Include any analysis that LG&E believes supports its position.

c. Does LG&E believe that there will need to be modifications to either the surcharge mechanism or the monthly surcharge reports as a result of incorporating additional environmental surcharge amounts into LG&E's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.

6. In Case No. 2000-00439, the Commission ordered that LG&E's cost of debt and preferred stock would be reviewed and re-established during the six-month review case. Provide the following information as of February 28, 2011:

a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.

b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.

c. LG&E's calculation of its weighted average cost of capital for environmental surcharge purposes.

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